

**REPORT OF: FINANCIAL SERVICES
FINANCIAL SERVICES MANAGER**

TO: EXECUTIVE

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DEVELOPING THE MEDIUM TERM CAPITAL PROGRAMME 2016/19

PURPOSE OF REPORT

1. The purpose of this report is to provide the Executive with details of the proposed Capital Programme for 2016/19 and to consider the prospects for future capital investment.

RECOMMENDATIONS

2. The Executive is recommended to:
 - a) Note the projected position on the capital programme for 2015/16 as shown in [Appendix A](#);
 - b) Approve a virement in the sum of £75,000 within the capital programme for the current financial year for the purposes outlined in paragraph 9 of this report;
 - c) Note the proposed expenditure of £93,500 to fund the purchase of wheeled bins upon expiry of the current leasing agreement in December 2015;
 - d) Note that capital expenditure bids for 2016/17 exceed projected capital resources by £0.7m and are, therefore, unaffordable in the context of the Council's Medium Term Financial Plan;
 - e) Consider the draft Capital Programme for 2016/17 shown at [Appendix B](#) pending a further report on this matter to the meeting of the Executive in February 2016;
 - f) Agree that this further report should assess the scope to, and implications of, avoiding borrowing costs and moving to a capital programme funded wholly by capital cash resources in order to generate savings for the revenue budget.

REASONS FOR RECOMMENDATION

3. To consider the development of the Council's Capital Programme for 2016/17.

ISSUE

4. This report provides details of the likely capital resources available in 2016/17 and capital bids for 2016/17 as submitted by Services. In view of the estimate of available capital resources for the year, a draft Capital Programme for 2016/17 has been put forward for consideration by the Executive.
5. A further report on the Council's Medium Term Capital Programme 2016/17 and an updated Capital Strategy will be prepared for the February cycle of meetings.

Capital Programme 2015/16

6. A review of the current years capital programme has been undertaken prior to the development of draft plans for next year. This is based broadly on the position that was presented to the Executive in September 2015 as part of the Strategic Monitoring Report and is provided so that Councillors can consider the proposed 2016/17 programme in the context of existing capital expenditure commitments.

Forecast Capital Expenditure 2015/16

7. Table 1 below provides a summary of the Capital Programme for 2015/16 with a more detailed analysis provided at [Appendix A](#).

Table 1: Capital Programme 2015/16 – Forecast Outturn

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Housing Projects	5,779	1,618	(4,161)	4,161	-
Car Parks, Flooding and Other Engineering	75	75	-	-	-
Other Miscellaneous Projects	1,321	1,041	(280)	280	0
Community Safety	136	136	-	-	-
Asset Renewal (excluding Parks)	734	363	(371)	336	(35)
Parks and Recreation Assets	81	61	(20)	20	-
Resource Procurement	1,137	70	(1,067)	1,067	-
Area Committees	445	237	(208)	208	-
Other Externally Funded Projects	179	118	(61)	61	-
TOTAL	9,885	3,718	(6,166)	6,131	(35)

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be an underspend of £6.2m in the current year. This represents delayed expenditure rather than genuine underspends such that all bar £35k of this balance is now expected to be incurred during 2016/17 and as such will be carried forward as slippage. A full analysis of the variations – before and after forecast slippage – is provided at [Appendix A](#). The most significant slippage is on the Housing capital programme. Slippage of £4.16m is currently projected, the main elements being budgets earmarked for Brierfield Mill and the **Brownfield Regeneration Fund**. The Executive has received updates on these schemes during the year. On non-housing schemes the most significant element of slippage relates to Resource Procurement schemes with slippage of £1.1m mainly linked to the Lancashire Growth Deal and the Council's partnership contribution to Pearl, linked to Brierfield Mill.

9. The original capital programme included a sum of £110,000 in respect of a loan to Pendle Leisure Trust to fund replacement equipment. As the Trust procured and financed the equipment by other means the loan is no longer required. The revised programme at [Appendix A](#) reflects a virement (transfer) of £75,000 from this budget. This is to fund the Council's contribution to the Lancashire Growth Deal project for junction improvements (J12 and J13) to the M65 motorway. Whilst costs are not yet confirmed the indications are that the budget originally approved of £270k will be exceeded hence the virement now proposed. The Executive is asked to endorse this transfer. The Council's investment needs to be viewed in the context of an overall package valued at £12m package for the Burnley / Pendle Growth Corridor of which £8m has been allocated under the Lancashire Growth Deal.
10. The revised programme also includes budget provision of £93,500 to fund the buy-out of a leasing agreement under which the Council was provided with 30,000 wheeled bins in 2005/6. The terms of the buy-out were agreed at the inception of the lease. The lease expires in December and there is no practical alternative other than to purchase the bins on expiry. Over time, funds have been set aside for this purpose in a specific revenue reserve to meet this cost.
11. Another matter highlighted for the Executive is the Empty Homes Clusters project. This has provided funding in Brierfield, Bradley, Southfield and Waterside to bring empty properties back into use through loans and to carry out a range of environmental schemes. The original approved loans have been paid out and all the environmental schemes have been completed apart from two projects in Southfield (Smith Street Grotspot and 'Bored with Boards'). The Executive has previously agreed that empty property loans could be offered across the Borough when repayment of the original loans was made, in other words that there would be a revolving loan fund. Hence, for 2016/17 the project will be renamed as Empty Home Loans. The unspent funding of £17,800 for Southfield will be put into a separate project called Southfield Environmental Schemes and will be managed by Neighbourhood Services.

Forecast Capital Resources 2015/16

12. Table 2 below summarises the expected available capital cash resources for 2015/16:

Table 2: Capital Programme 2015/16 – Forecast Capital Cash Resources

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
General Capital Receipts	300	300	-	-	-
Housing Capital Receipts	-	-	-	-	-
Revenue Contributions	786	786	-	-	-
Capital Grants	700	673	(26)	61	35
S106 Funding/Leasing	118	118	-	-	-
Sub-total (cash resources)	1,903	1,876	(26)	61	35
Borrowing	7,962	1,842	(6,120)	6,070	(50)
TOTAL	9,865	3,718	(6,146)	6,131	(15)

Source: Appendix A

13. It is estimated that the sum of £61k will be carried forward linked to potential future funding commitments which are included in the forecast slippage shown in Table 1 above.

Prudential Borrowing in 2015/16

14. Prudential Borrowing is necessary where there are insufficient capital cash resources to finance capital expenditure. Table 3 below compares the forecast capital programme with available capital cash resources and shows the amount of prudential borrowing that would be required in 2015/16 to fund the current approved programme (whether it is spent in 2015/16 or in future years).
15. The required prudential borrowing has been compared to the budgeted prudential borrowing taking into account the projected level of slippage. As the table indicates, the amount of prudential borrowing in the current year is expected to be £6.1m less than budgeted owing to delays in capital spending. This will be carried forward to the following year to finance project slippage.

Table 3: Prudential Borrowing 2015/16

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Capital Programme (Table 1)	9,885	3,718	(6,166)	6,131	(35)
Capital Cash Resources (Table 2)	1,903	1,876	(26)	61	35
Required Prudential Borrowing	7,982	1,842	(6,140)	6,070	(70)
Budgeted Prudential Borrowing	7,962	1,842	(6,120)	6,070	(50)
Amount of Unfunded Projects	20	-	(20)	-	(20)

Capital Strategy 2016/17

16. The latest Capital Strategy for 2015/18 was approved by Council In February 2015 as part of the approval process for current year's capital programme. The Capital Strategy is maintained under ongoing review in response to the significant reduction in capital resources experienced in recent years.

Capital Investment Strategy

17. The Council's capital investment priorities will be driven by the strategic objectives combined with a need to maintain assets for service delivery. Any capital investment undertaken by the Council must be affordable, prudent and sustainable. In recognition of this, it is assumed that the key capital investment priorities for the Council will continue to be:-
 - **Private Sector Housing Renewal** – This remains a priority for the Council given the condition of the housing stock within some areas of Pendle and the ongoing focus on reducing the number of empty homes in the Borough. However, the extent to which the Council has the financial capacity to deliver the renewal of private sector housing will largely depend on the receipt of external funding from the Government or related Agencies such as the Homes and Community Agency (HACA);
 - **Promoting, Enabling and Providing Regeneration** – The wider regeneration of Pendle is a key capital investment priority for the Council. In previous years this has largely been driven by the external funding provided to the Council. More recently, given the continuing constraints on external funding, the Council has used its joint venture arrangement with Barnfield Investment Properties – PEARL and PEARL2 and more recently PEARL (Brierfield Mill) – as key vehicles for regeneration activity. This will continue to be the case where it remains viable to do so;

- **Corporate and Service Asset Renewal** – Where resources permit we will continue investing in our own assets, primarily those employed in the delivery of services direct to the residents, e.g. parks and recreational facilities but also those that are used for administrative purposes. A key part of this is to provide adequate resources to ensure assets are safe to use and occupy.

Capital Resources Strategy

- Councillor's will be aware that the ongoing position is one in which the forecast level of capital resources available remains much less than has been the case in previous years. There is little expected grant funding other than that which may be awarded to the Council for Disabled Facilities Grants (DFG).
- As a result of significant and ongoing reductions in revenue grant funding from Central Government there is no scope for the Council to increase the revenue contributions it makes to support the capital programme without additional compensating savings being identified. The constraints on the revenue budget, as highlighted in the Medium-term Financial Plan, also mean it is not sustainable for the Council to rely on new borrowing to fund capital expenditure, as the ongoing financing costs (interest and principal repayments) fall on the revenue budget and will simply increase the required savings required each year to balance the budget.
- One source of income generation which the Council can determine is that arising from a programme of disposals of council land and property assets. Whilst the Council agreed the disposal of the following 4 strategic development sites in June 2013 none have thus far been sold and other than the Clitheroe Road site no account has been taken of any potential capital receipts at this stage in developing the medium-term capital programme:
 - Land at Clitheroe Road, Brierfield (progressing – sale expected 2016/17)
 - Land at end of Trent Road, Nelson (not considered viable)
 - Land at Further Clough Head, Nelson (current - subject to public consultation)
 - Land at Great House Farm, Red Lane, Colne (not currently being progressed)
- Subject to Councillors' approval, any receipts arising from these disposals could be used to support future capital investment.

Overview of Capital Resources 2016/17

- Table 4 below summarises the estimate of available capital resources for 2016/17 (with 2017/18 and 2018/19 also shown for information):

Table 4: Estimated Capital Resources 2016/17 (2017/18 and 2018/19)

	2016/17 £000	2017/18 £000	2018/19 £000
Capital Receipts			
- General Capital Receipts	300	100	100
- Housing Capital Receipts	0	0	0
Revenue Contribution to Capital	100	100	100
Capital Grant (in year)	370	350	320
ESTIMATED RESOURCES	770	550	520

Source: Appendix B

- At this stage, Table 4 above does not include any amount for borrowing and the scope for this is discussed in more detail below. Points to note about capital resources include:
 - Housing Capital Receipts** – At this stage, no 'new' receipts have been assumed as the use of such receipts is dependent primarily on the consent of HACA;

- b) **General Capital Receipts** - For 2016/17, it is currently assumed that receipts of £300,000 will be generated through the Council's disposals programme. This represents a provisional sum which will be monitored throughout the year.
- c) **Revenue Contribution to Capital** – this reflects the contribution from revenue reserves to fund property capital works.
- d) **Capital Grants** – For the purposes of developing the outline programme for 2016/17 the only grant funding included at this stage is that relating to Disabled Facilities Grants. The sum of £370k has been assumed for 2016/17 being the second year of the Better Care Fund arrangements. Grant is expected to decrease annually thereafter.

Bids for Capital Expenditure 2016/17

24. The bids (including forecast slippage carried forward from 2015/16) for capital expenditure are shown in detail at [Appendix B](#) and summarised in Table 5 below along with bids for the following two financial years:-

Table 5: Capital Bids 2016/17

	Capital Bids 2016/17 £'000	Capital Bids 2017/18 £'000	Capital Bids 2018/19 £'000
Private Sector Housing	5,147	905	885
Asset Renewal	858	440	344
Area Committees	358	150	150
Other General Capital Schemes	648	115	115
Resource Procurement / External Funding	1,128	-	-
Total Proposed Capital Expenditure	8,139	1,610	1,494

Source: Appendix B

Affordability of the Proposed Capital Bids 2016/17

25. Table 6 below provides a comparison of the total of capital bids to available resources. At this stage, the table below assumes no new prudential borrowing and shows capital bids exceeding capital resources by approximately £1.2m in 2016/17 (£1.1m in 2017/18 and £1m in 2018/19).

Table 6: Capital Bids (including slippage) compared to Capital Resources

	2016/17 £000	2017/18 £000	2018/19 £000
Capital Bids (Table 5)	8,139	1,610	1,494
Less Capital Resources (Table 4)	(770)	(550)	(520)
Less resources carried forward from 2015/16	(6,175)	-	-
Resource Shortfall	1,194	1,060	974

26. An important consideration in assessing the affordability of our future capital investment plans is the cost to the General Fund Revenue Budget. As indicated in previous reports, the cost of borrowing for capital investment comprises two elements:-
- an interest cost arising from either new cash borrowing or where we choose to redeem investments (i.e. interest foregone) in order to have sufficient cash to meet capital payments when they are due;
 - a principal repayment (otherwise known as the Minimum Revenue Provision (MRP)) required to reduce the net indebtedness of the Council.

27. These costs are direct charges to our General Fund Revenue Budget. In addition to the committed borrowing of £6.1m carried forward from the current year, the Medium Term Financial Plan assumes new borrowing of £0.5m in 2016/17 and the two years thereafter. The estimate of debt charges to 2018/19 on the basis of current assumptions is provided in Table 7 below:-

Table 7: Estimated Debt Charges

	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Minimum Revenue Provision	435	624	638
Estimated Interest Costs	580	620	660
Total Estimated Debt Charges	1,015	1,244	1,298

28. ***This position represents the ongoing cost of our present capital programme and commitments along with the additional borrowing set out above.***
29. Table 6 above highlights a gross additional borrowing 'need' of £1.2m to fund all bids in 2016/17. This is £0.7m higher than currently assumed in the Medium Term Financial Plan. If this additional borrowing was undertaken the costs falling on the General Fund would increase by an estimated £56k per annum. In view of the financial position facing the Council in 2016/17 as presented in a report elsewhere on this Agenda, this is not considered affordable, sustainable or prudent. Indeed, subject to Councillors discussions on the General Fund Revenue Budget for next year, consideration may need to be given to the affordability of the borrowing currently assumed in 2016/17 and future years.
30. Given the scale of the financial challenge faced by the Council it is questionable whether the Council can afford any 'new' borrowing. Equally, the extent of committed borrowing carried forward from 2015/16 needs to be critically reviewed to determine whether any of this can be avoided so as to reduce borrowing costs going forward. The Council is faced with finding significant savings on its revenue budget and reducing capital financing costs would make a contribution to this.
31. Removing the scope for any new borrowing would leave the Council reliant on capital receipts, grants and contributions as the only funding sources with which to sustain any capital expenditure. In the Spending Review last month, the Chancellor announced that local authorities would be allowed to use capital receipts to fund the revenue costs of reform projects. Whilst the detail of this has not yet been confirmed it could see capital resources being diverted towards revenue to alleviate budget pressures and help move the Council to a lower cost base.
32. More work needs to be done on these matters and the intention is to complete this and submit a further report in February when the Executive and Council will be asked to consider and approve the final budgets for 2016/17.

Draft Capital Programme 2016/17

33. Subject to the above comments, there is a need to critically review the capital bids for next year to determine a package of bids that is affordable. **To this end, a draft Capital Programme for 2016/17 is provided at [Appendix B](#) and summarised in Table 8 below for consideration by the Executive.**

Table 8: Proposed Capital Programme

	Capital Bids 2016/17 £'000	Draft Programme 2016/17 £'000	Variance 2016/17 £'000
Private Sector Housing	5,147	4,771	(376)
Asset Renewal	858	591	(267)
Area Committees	358	308	(50)
Other General Capital Schemes	648	648	-
Resource Procurement / External Funding	1,128	1,128	-
Total Proposed Capital Expenditure	8,139	7,445	(693)
Less Estimated Resources	(770)	(770)	-
Less Resources b/fwd	(6,175)	(6,175)	-
New Amount of Prudential Borrowing	1,194	500	(693)

Source: Appendix B

34. As Table 8 shows, to fully deliver the draft Capital Programme in 2016/17 would require prudential borrowing of c£1.2m which exceeds the current assumption on borrowing in the Council's General Fund Revenue Budget by £0.7m (i.e. expenditure would be over-programmed by this amount if the draft programme as set out in Table 8 was adopted).

Timetable and Next Steps

35. The table below sets out an outline timetable for the remaining part of the process for the development of the Capital Programme for 2016/17:

Table 9: Capital Programme - Timetable

Date	Action	Status
early October	Pro-Forma (with guidance notes) issued to Service Managers	Completed
23rd October	Return of Pro-Formas from Service Managers	Completed
24 th November	Management Team to consider Capital Programme Roll-Forward	Completed
10 th December	Executive to consider Capital Programme Roll-Forward	This report
January 2016	Mgmt Team Consideration of Detailed Capital Programme 2016/17	
9 th February	Executive approval of Capital Programme 2016/17	
18th February	Special Budget Council including Capital Programme 2016/17	

IMPLICATIONS

Policy

36. The Council's Capital Programme supports the delivery of services in pursuance of the Council's Strategic Objectives. In view of the position set out in the report, work will need to be undertaken to prioritise capital bids according to the Council's policy objectives. Underpinning this work will be a need to review and update the Council's Corporate Capital Strategy and the Asset Management Plan to ensure that resources are appropriately prioritised.

Financial

37. The financial implications are as given in the report.

Legal

38. There are no legal implications arising directly from the contents of this report.

Risk Management

39. In relation to the potential risks faced by the Council, there needs to be a balance between maintaining and improving service delivery and the sustainability of the financial standing of the Council.

40. The capital bids outlined in this report exceed the Council's present resources and it is important, therefore, that these are critically reviewed and prioritised to ensure the Council's limited resources are applied most effectively. There is risk, however, that not all policy objectives of the Council that require capital investment can be pursued.

Health and Safety

41. There are no health and safety issues arising directly from the contents of this report.

Climate Change

42. There are no climate change issues arising directly from the contents of this report.

Community Safety

43. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

44. There are no new equality and diversity issues arising directly from the contents of this report.

APPENDICES

Appendix A – Capital Programme 2015/16 – Projected Outturn

Appendix B – Capital Bids and Proposed Capital Programme 2016/19

LIST OF BACKGROUND PAPERS

None